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Commissioner John R. Norris

STATEMENT

FEDERAL ENERGY REGULATORY COMMISSION

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Statement of Commissioner John R. Norris on Upcoming Capacity Market Technical Conference

During my days on the Iowa Utilities Board and the board of the Organization of MISO States, few if any topics could stir the passions of stakeholders like the topic of capacity markets, particularly those of my fellow state regulators. At that time, a large percentage of MISO states were vertically integrated. Now, that percentage has grown with the potential to be even larger if Entergy becomes a member of MISO. It was clear then that most states were generally more comfortable with addressing resource adequacy through integrated resource planning or other state procedures for ensuring utilities were prepared to meet future demand and state-established reserve margins.

Upon my arrival at FERC in 2010, a great deal of my time was rapidly consumed assessing the capacity markets in the three Eastern RTO/ISOs. I approached these markets with many questions brought with me from my days in Iowa and MISO, but also with a solid belief that competition can be the best means to most efficiently and cost-effectively address energy and capacity needs for consumers and the U.S. economy. To date, I have lost track of the number of times the Commission has had to address capacity market design issues in the three Eastern RTO/ISOs.

I look at the Commission's upcoming Technical Conference on Centralized Capacity Markets as an opportunity to stop and assess where we have been with capacity markets, where we are now, and how we should move forward in the evolution of these markets. I appreciate the huge amount of interest in this conference that has been expressed by many groups and individuals. Those responses are indicative of the importance and timeliness of addressing the many issues surrounding capacity markets.

As we approach this technical conference, I encourage panelists and others who may submit comments to keep the following questions in mind. While these questions below, or versions of them, may have already been covered by the Commission's capacity market technical conference notice, I am restating them here because they frame my thinking regarding the ability of capacity markets to meet our present and future needs.

The Present

Are the centralized capacity markets meeting the consumers' need for energy at peak demand plus a reasonable reserve margin in the most efficient and cost-effective way possible, and if so how? If not, then why not? What changes do you believe need to be made to achieve a more efficient and cost-effective outcome?

The Devil is in the Details

Ideally, capacity markets should provide the revenues to resources that would otherwise be provided in a properly functioning energy-only market plus the established level of needed reserves for reliability. That being said, there seems to be an on-going need for administrative "fixes" to our existing capacity markets. My concern is that the more administrative fixes that we layer on top of capacity markets, the greater the potential for inefficiencies and higher costs.

Should we be concerned that continual administrative fixes may be preventing the capacity markets from achieving competitive outcomes?



One key factor in the continual need for administrative fixes is the conflict between state and local policy objectives (such as renewable energy or energy efficiency) and efficient wholesale capacity market prices. Our orders over the last several years have found that where there is a conflict between the two, wholesale markets trump public policy. Are these the right calls?

Do these two purposes always have to be in conflict or are there ways in which we can respect the ability of state and local entities to determine their own resource mix while still adhering to our statutory responsibility to ensure just and reasonable wholesale prices?

I am also concerned about those entities who desire to self-supply their capacity needs through owning their own resources or bilateral contracting of resources. Similar to the choice conflict that exists with state or local public policy goals, does denial of an entity's desire to meet its own system's needs unreasonably prevent it from meeting its customer needs? Can a self-supply and corresponding bilateral market co-exist with a capacity market?

The Future

Our electrical system is not static and in fact is going through significant changes. We will have to meet our future resource needs in light of significant changes to our nation's generation mix, demand side possibilities, and the emergence of new technologies that potentially provide more efficient and cleaner energy. Will these changes, such as an increasing supply of variable generation, necessitate significant changes to our existing capacity markets, minor changes, or no change at all?

Should capacity markets focus solely on resource adequacy or should greater focus be placed on resources with certain operational capabilities, such as flexibility? If we focus on certain operational capabilities, how is that best achieved while ensuring that we also meet the overall objective of capacity markets? For example, do we need different capacity markets for specific resource characteristics or can this need be met within the existing single capacity market for each RTO/ISO?

Another significant change occurring is the increasing levels of distributed generation. Are we exploring ways to account for this increasing generation source to ensure capacity markets are not over-procuring resources?

As I review the testimony provided by conference participants and prepare for the upcoming technical conference, I am providing these additional questions and my thoughts about these issues in the hopes of a more fruitful discussion at the conference. I appreciate the interest in these issues and look forward to a comprehensive discussion at the conference.